



July 1, 2015

Mayor and Council:

With this letter, I transmit the Adopted Fiscal Year 2016 Budget (FY 2016). This Charter designated duty of the City Manager provides a solid foundation for City Council to deliberate and determine a plan on how best to allocate municipal revenues to further the City's mission of protecting and enhancing the quality of life for its citizens. This Recommended Budget reflects thousands of work hours because fiscal responsibility of public funds is one of our highest duties.

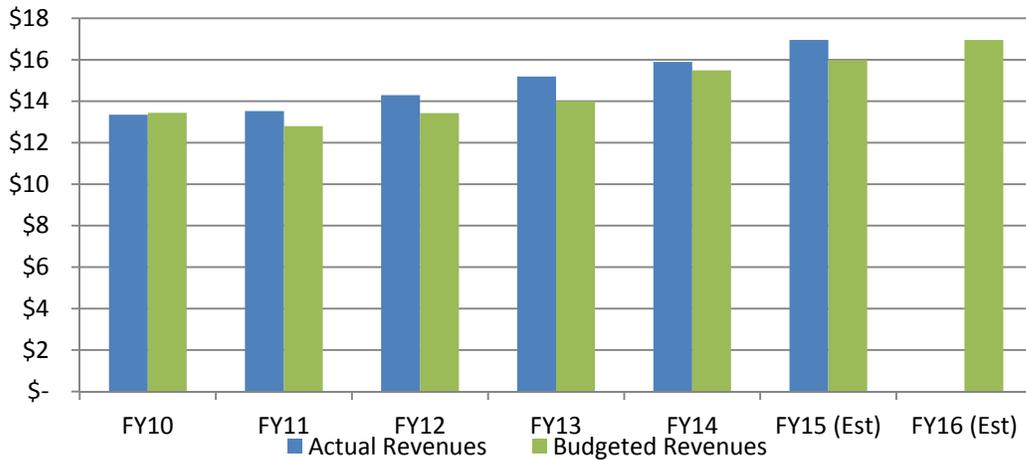
As the Interim City Manager I stepped into this position with 4 priorities: Financial Stability, Staff Morale, Community Relations and Council Relations. This budget reflects continued effort in all of these areas and funds advancement of each priority in a specific, strategic manner. This prudent approach ensures that the City remains fiscally responsible while continuing to provide the quality programs and services that our residents and visitors have come to expect and enjoy.

This Adopted Budget represents a shift from our approach of recent years. Prior to FY 2016, we have been necessarily coping with and recovering from the Great Recession. Initially, we largely maintained pre-recession service levels by deferring maintenance on infrastructure, maintaining minimum staffing levels, and holding compensation below market levels. The result was that infrastructure started showing failures, service levels were not always fulfilled, and turnover increased, particularly in the Police Department. Fiscal Years 2014 and 2015 signaled recovery mode by making necessary investments in employee compensation, staffing and infrastructure. Looking forward, FY 2016 provides a definitive step towards achieving Council's ambitious goals within the next 5 years. As you will see, the steps we take in FY 2016 will provide a foundation for investment in the future, especially in the Council budget priority areas of employee investment, staffing and technology/infrastructure.

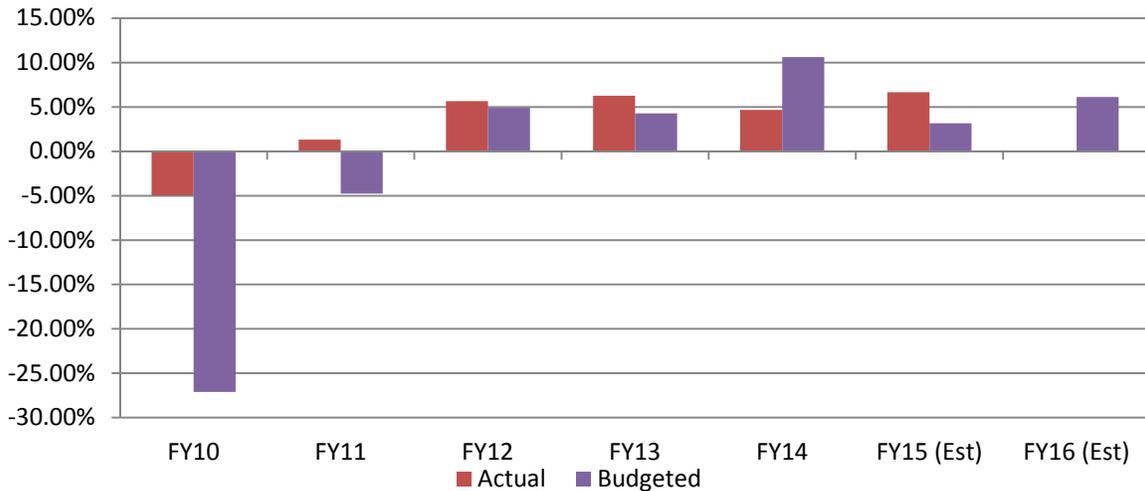
Economic Condition

National, state and local economic conditions have improved since the Great Recession. Locally, the Flagstaff economy can perhaps best be measured by four indicators--sales tax, state shared income tax, BBB tax and the construction industry.

General Fund Sales Tax Revenues (In Millions)

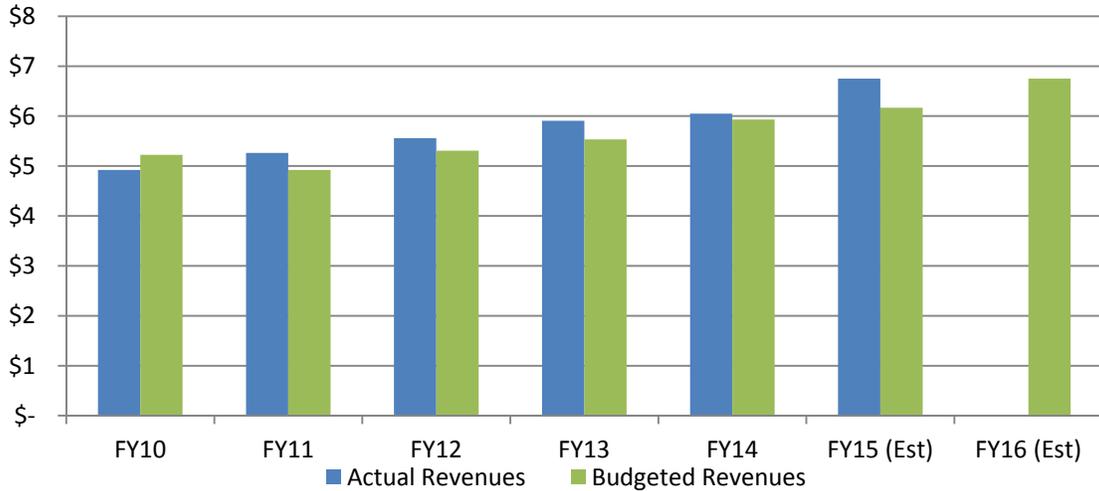


General Fund Sales Tax Revenues (% Change)

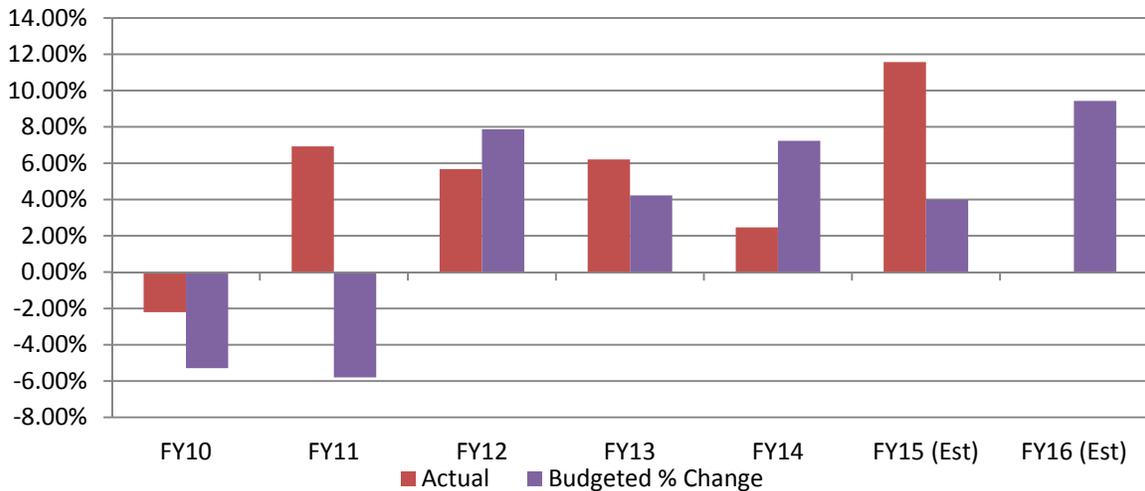


The Bed, Board and Beverage (BBB) tax is another important indicator of the health of the local economy. BBB revenues increased by over 10% as of Spring 2015 and are estimated to end FY 2015 with an 11.5% increase or a total of \$700,000 over FY 2014. Revenue projections are cautiously estimated to increase by 8% in FY 2016 over FY 2015 budgeted revenues. However, in order to build on FY 2015's success, the recommended budget provides a portion of the FY 2016 \$700,000 increase for expansion of the City's highly successful marketing and tourism related efforts.

Bed, Board, and Beverage (BBB) Tax Revenues (In Millions)

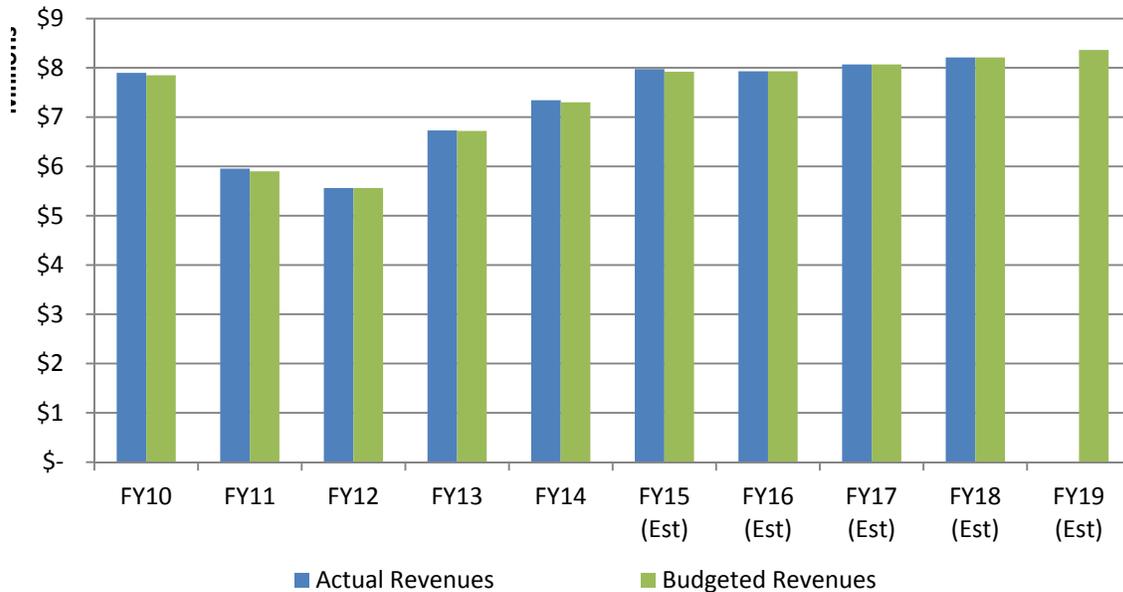


Bed, Board, and Beverage (BBB) Tax Revenues (% Change)

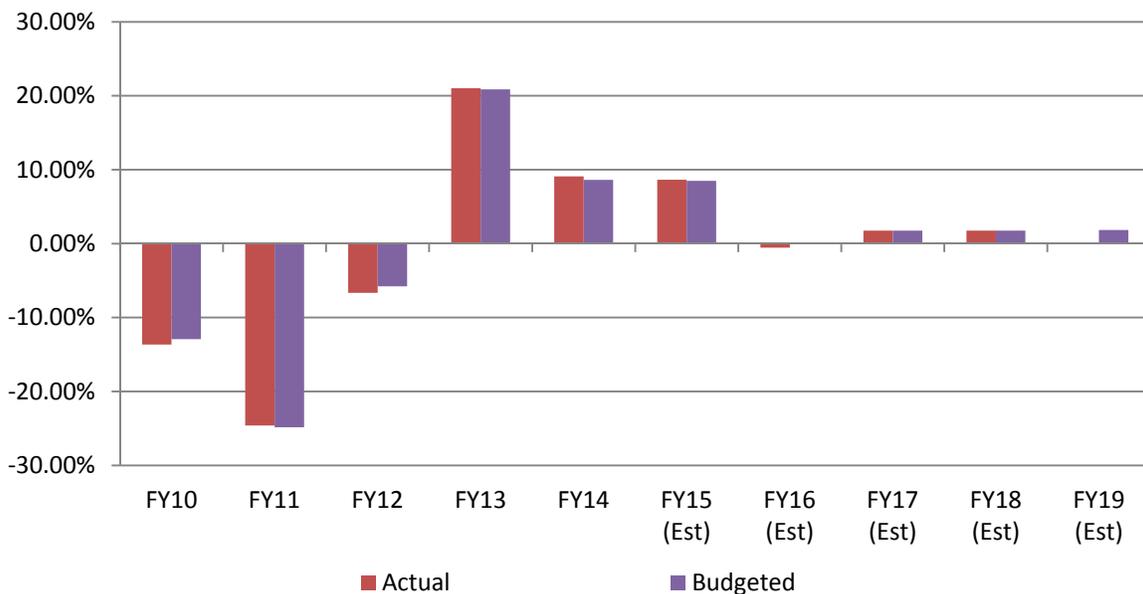


Another measure of our economic health is unemployment. While the City does not predict unemployment in its annual budget, the rate can affect revenue. The most direct correlation is the State Shared Income Tax. This revenue source is remitted to the City from the State approximately two years in arrears. Consequently, we know exactly how much is going to be remitted in the upcoming fiscal year. For FY 2016, growth in State Shared Income Tax is not projected to grow as rapidly in future years as it did in FY 2015.

State Shared Income Tax Revenues (In Millions)



State Shared Income Tax Revenues (% Change)



In pre-recession times, the combination of new residential and commercial construction growth provided its own stimulation to the economy through building permits, construction material, and sales taxes. Construction growth also resulted in sales tax leakage because new residents were spending money at new retail establishments. This helped drive our local economy. The past Calendar Year 2014 (CY 2014), saw growth in total new construction valuation of \$95,467,771 compared to \$58,923,621 in CY 2013. In FY 2014, total new residential and commercial construction permits were up 10% from FY

2013. Meanwhile, total single family dwelling units were down in CY 2014: 168 compared to 191 in CY13, total dwelling units were up in CY 2014: 390 compared to 248 in CY 2013 (this is single and multi-family units).

In summary, our economy is growing incrementally stronger. This translates into only incremental growth in our ongoing revenues. In order to maintain existing services levels and address the maintenance, inflationary, and competitive costs of employee investment, infrastructure, and staffing, we will need to examine one-time and new revenue sources more closely.

Fund Accounting

The City uses funds to report its financial position and the results of its operations. Fund accounting ensures financial resources are segregated by certain governmental functions or activities. Fund accounting also supports legal compliance and aids overall fiscal management practices. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures. More information on fund accounting and the City's financial structure can be found in the next section of the Budget Book.

Revenues

One-time revenue is money the City received that we do not expect to reoccur in subsequent fiscal years. Primary sources of one-time revenue include: unspent funds from the prior fiscal year, grants, bonds, and atypical revenue from a particular industry. The latter is most commonly associated with the auto and construction industry. Auto sales vary widely from year-to-year. Consequently, when sales tax associated with the auto-industry is atypically high, we carry most of that forward as one-time revenue. The City budgets the construction industry the same way. We have \$4.0 million in one-time dollars to allocate in the General Fund for FY 2016. This is particularly helpful given we are only projecting \$2.2 million in on-going money which is necessary to fund inflationary expenses associated with fixed costs such as employee pension and pay adjustments.

Because of limited new ongoing dollars, City Council considered additional revenue sources. Council majority approved increases in the cost recovery of cemetery fees and liquor license fees to 100% which will generate an additional \$19,000 in ongoing revenue for the General Fund.

The following is a breakdown of one-time and ongoing available funding per fund:

| Fund | 1x Available | ONG Available |
|----------------------------------|---------------------|----------------------|
| General Fund | \$4,029,000 | \$2,185,000 |
| Library | \$88,000 | \$6,800 |
| FMPO | \$0 | \$0 |
| Housing and Comm.Services | \$130,000 | \$1,000 |
| Highway User Revenue | \$1,213,000 | \$400,000 |
| BBB Fund | | |
| <i>Beautification</i> | \$455,000 | \$5,400 |
| <i>Economic Development</i> | \$0 | \$3,000 |
| <i>Tourism</i> | \$320,000 | \$175,000 |
| <i>Arts and Science</i> | \$45,000 | \$45,000 |
| <i>Recreation</i> | \$580,000 | \$270,000 |
| Environmental Management | \$120,000 | \$79,500 |
| Solid Waste | \$173,000 | \$10,000 |
| Airport | \$164,000 | \$0 |
| Housing Authority | \$0 | \$25,000 |
| Stormwater | \$237,200 | \$73,200 |
| Water | \$40,000 | \$205,000 |
| Wastewater | \$0 | \$40,000 |

Expenditures

Consistent with previous budgets, I split both revenue and expenditures between “ongoing” and “one-time” within each fund. Identifying ongoing revenues is helpful in understanding the degree of impact the expenditure change can make on the level of service and/or Council goals and priorities. Council goals for the FY 2016 Budget are employee investment, staffing and infrastructure/technology.

Employee Investment

For the General Fund, the use of ongoing money principally addresses employee investment including a 2% market increase, implementing market based pay in the Police Department for commissioned police personnel, and various reclassifications and rezones. Also notable is a \$750,000 ongoing contribution to support the City’s public safety pension. Beyond these on-going appropriations, we also used one –time dollars of \$1,500,000 to balance the FY 2016 pension and as a set aside for FY 2017 pension costs.

The 2% market increase will be replicated in each fund. Most funds can pay for the market increase, reclassifications and rezones, but the Library and Airport will require a contribution from the General Fund as follows:

| General Fund Transfers | Ongoing Transfer |
|-------------------------------|-------------------------|
| Transfer to Library-2% Market | \$51,000 |
| Transfer to Library-Reclass | \$28,100 |
| Transfer to Airport-2% Market | \$14,000 |

Compensation adjustments are also recommended for public safety and public works personnel assignment pay. These changes include \$23,000 of Shift Differential Pay for dispatchers (1 year); \$31,600 additional pay for Fire Department Personnel on SWAT assignments, Market Paramedic Assignment Pay (2 years), a stipend for snow plow operators to encourage trained personnel to return to the City each season (1 year), and funds to support retention and attraction strategies for City Dispatchers and Call Takers (1-year), including a \$1 per hour pay adjustment(ongoing).

Staffing

The FY 2016 recommended budget includes some staffing positions designed to meet current commitments, build required infrastructure, and facilitate continued economic development:

- Public safety commitments have been enhanced in recent years by dedicating a Senior Assistant Attorney to the Police Department. The FY 2016 budget makes this move permanent.
- The potential for building on success and continuing to grow our economy is strengthened by having staff expertise in key areas of economic development. As such, BBB Funding will be used to fill a Business Attraction Manager and reclassify a Community Investment Director.
- Appropriate investment infrastructure is critical to preparing for the future and reducing long term costs. Towards this end, I am recommending the addition of a Traffic Engineering Project Manager and Utilities Engineer Project Manager to assist with community growth needs related to street and utilities infrastructure. These two positions will be fully funded outside the General Fund.
- On the Fire Department side, this Budget recommends the continued funding for a Regional Training Coordinator. This position is jointly funded and shares training duties across the fire agencies in northern Arizona. This partnership approach creates efficiency across the departments and decreases some of the over-time that must be expended by existing personnel training their colleagues.
- The Recommended Budget proposes using one time dollars to hire a Court Collections Specialist and extend the Public Defender contract. The Court Collection Specialist has a revenue offset goal of 1.25%. In other words, for every \$1.00 spent on the position, \$1.25 is expected to be collected in fees and fines that would otherwise have been forfeit.
- An Open Spaces Specialist is recommended in the budget which will directly support the City’s ongoing commitment to 2,400 acres of open spaces management. This necessary position will use one-time dollars from Environmental Management revenues to fund the position for two years.

- An HR Manager will be funded with ongoing dollars to maintain our performance management and departmental support goals. Given the HR staff reductions through the Great Recession and the level of support needed for a professional organization like the City, this position is a high priority for ongoing funding.
- An HR Analyst was increased by 10 hours using one-time dollars for one year.
- Part-Time Water Conservation Ambassadors will work through the summer months to help the community reduce water usage.
- Additional temporary staff has been added to the Joe C Montoya Community Center.
- Temporary assistance has been budgeted with one-time dollars to improve the City's ability to implement technology and infrastructure needs.

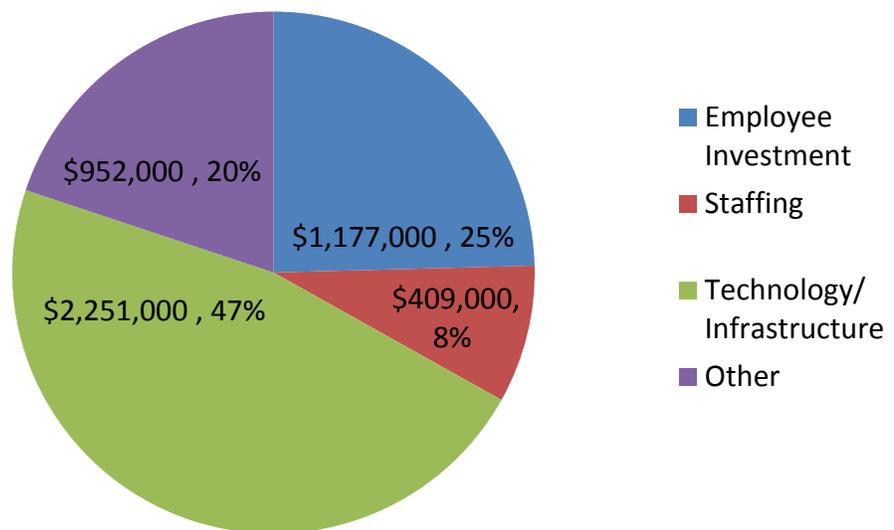
Technology and Infrastructure

Technology and Infrastructure are important for the Citizens we serve and for the employees who provide that service. We all need the right tools and workspaces to do our jobs safely and the public needs facilities and infrastructure appropriate to Flagstaff's quality of life. For example, the 63% voter approval of Proposition 406 will allow the City to reduce long term road expenses by stopping road deterioration now. We will save 60%, or \$28 Million, over 20 years on road repairs and street safety improvement projects.

Beyond Prop 406, in total we are investing \$2.3 million into technology and infrastructure. Many investments recommended for FY 2016 that will pay dividends long term, increase efficiency and effectiveness, and prevent escalating costs. Given the Council's clear focus on prioritized goals and measurable success in specific areas, recommended budget items are identified under the goal that each expenditure most directly supports. Attached to this transmittal is a summary of many budget investments that advance the Council's eleven goals.

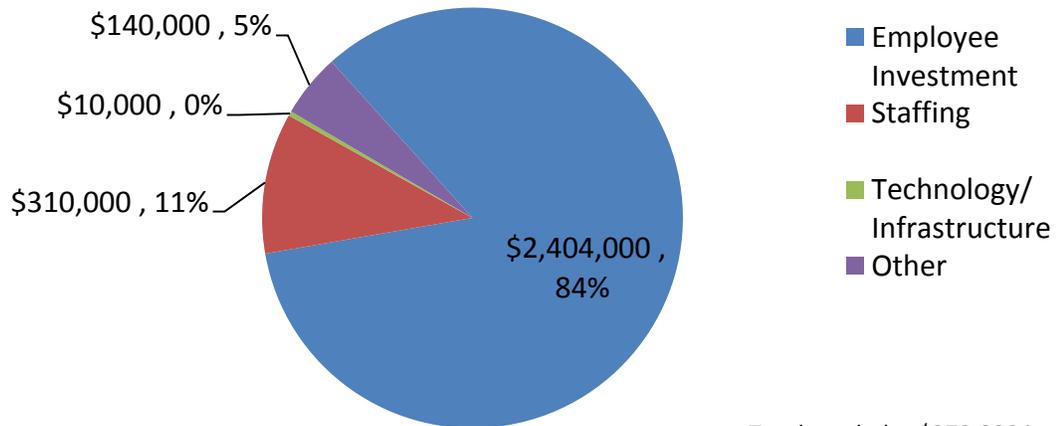
Summary in General Fund

New One-Time Investments in Proposed FY 2016 Budget General Fund



Totals excludes \$1.7m in offsets

New Ongoing Investments in Proposed FY 2016 Budget General Fund



Totals excludes \$278,000 in offsets

Other Funds

Full Five Year Plan summaries can be found in Financial Summaries of this book.

Summary

The availability of one-time money, and the City Council's focused commitment to employee investment, staffing and technology/infrastructure, enables the FY 2016 Recommended Budget to be successful in stabilizing City service levels, making progress on Council goals and developing a platform for growing the Flagstaff economy in the future.

Respectfully Submitted,

Jeff Meilbeck
Interim City Manager

Highlights of Budget Investments that Advance Council Goals

Goal #1: Invest in our employees and implement retention and attraction strategies

- 2% Employee Market Increase: Ongoing \$585,000 (GF) \$252,000 (Other funds)
- PD Market Based Pay: Ongoing \$512,000 (GF)
- PSPRS Employee Pension: Ongoing \$750,000 (GF) & 1x \$1,500,000 (GF)
- Snow Operator Stipend: 1x \$60,000 (HURF)
- Dispatcher Shift Differential Pay: 1x \$23,000 (GF)
- SWAT Fire Pay: Ongoing \$31,645 (GF)
- Employee Training: 1x \$115,000 (All funds)
- \$1 per hour salary increase for Dispatchers: Ongoing \$76,000 (GF)
- Dispatch retention / Attraction strategies: 1x \$50,000 (GF)
- Paramedic Hazard Assignment Pay - 2 years \$200,000 (GF)

Goal #2: Ensure Flagstaff has a long-term water supply for current and future needs

- Flowtopography – Lake Mary: 1x \$15,000 (Water)
- Water Conservation – Enforcement Officers: Ongoing \$24,000 (Water)
- LID Demonstration Project: 1x \$12,000 (Stormwater)

Goal #3: Provide sustainable and equitable public facilities, services, and infrastructure systems in an efficient and effective manner to serve all population areas and demographics

- Library Services: 1x \$230,400 (Library)
- Library Roof – Phase II: 1x \$190,000 (GF)
- City Hall: 1x \$22,000 (GF)
- Aquaplex Pool Improvements: 1x \$110,000 (BBB Rec)
- Street lighting: Ongoing \$120,000 (HURF)
- Street Sweeping: 1x \$50,000 (HURF)
- Airport Runway Restriping: 1x \$44,000 (Airport)
- Open Spaces Management: 1x \$75,000 (EMF)
- Innoprise Implementation: 1x \$50,000 (GF)
- Network SAN Replacement: 1x \$75,000 (GF)
- Engineering Project Manager: Ongoing \$91,000 (Utilities)

Goal #4: Explore and adopt policies to lower the costs associated with housing to the end user

- Section 8 Housing: 1x \$50,000 (Carry Forward)

Goal #5: Develop and implement guiding principles that address public safety service levels through appropriate staffing levels

- PD Safety Equipment: 1x \$36,000 (Court Fees)
- Body Cameras: 1x \$85,000 (GF)
- Fire Turnouts, Equipment, MDCs, Thermal Cameras: Ongoing \$100,000 (GF)
- Public Defender Contract: 1x \$50,000 (GF)
- Hazard Tree Removal: 1x \$20,000 (GF)
- Court Collection Specialist: 1x \$55,000 (GF)
- IGA with County for Criminal Interrogation Services: 1x \$36,000 (GF)

- Airport Security Gate: 1x \$120,000 (GF)
- Heart Monitors: Ongoing \$40,000 (GF)

Goal #6: Relieve traffic congestion throughout Flagstaff

- FMPO GIS Analyst: 1x \$55,000 (FMPO)
- Traffic Engineering Project Manager: Ongoing \$110,000 (FMPO, Transportation, TIA, etc.)

Goal #7: Address key issues and processes related to the implementation of the Regional Plan

- Lockett Corridor Study: 1x \$100,000 (Transportation Fund)

Goal #8: Improve effectiveness of notification, communication, and engagement with residents, neighborhoods and businesses and about City services, programs, policies, projects and developments

- Outreach and engagement for Road Repair and Street Safety projects: 1x \$60,000 (RR&SS)
- On call software for customer service phone functions: 1x \$35,000 (GF)
- E Procurement Software: 1x \$3,500 (GF)
- Social media software for records management: 1x \$4,800 (GF)
- Outreach related to City website and social media sites: 1x \$6,000 (GF and BBB Tourism)
- Additional Streaming Services: 1x \$10,000 (GF)
- Mt. Elden Tower Rental: ONG \$6,000 (GF)
- City Net Microwave: 1x \$712,000 (GF)

Goal #9: Foster relationships and maintain economic development commitment to partners

- Reclass Community Investment Director: Ongoing \$13,000 (BBB & GF)
- Business Attraction Manager: Ongoing \$63,000 (BBB & GF)
- CVB Promotional Marketing – Route 66: 1x \$20,000 (BBB Tourism)
- CVB Marketing: Ongoing \$60,000 (BBB Tourism)
- CVB Cool Zone Marketing: 1x \$65,000 (BBB Tourism)

Goal #10: Decrease the number of working poor

- Maintain United Way 1x Contribution: 1x \$71,000 (GF)

Goal #11: Ensure that we are as prepared as possible for extreme weather events

- Regional Training Coordinator: 1x \$77,500 (GF)
- Fanning Wash – Stormwater Project: 1x \$25,000 (GF)
- Continuity of Operations Plan (COOP) Software: 1x \$225,000 (Stormwater)



The City of Flagstaff Service At A Higher Elevation

Mission

To protect and enhance the quality of life of its citizens

Vision

The City of Flagstaff is a safe, diverse, vibrant, and innovative community with a unique character and high quality of life. The City fosters and supports a balance of economic, environmental, educational, and cultural opportunities.

Values

Teamwork

Accountability

Communication

Quality

Leadership



CITY OF FLAGSTAFF – COUNCIL GOALS

- 1) Invest in our employees and implement retention and attraction strategies**
 - Bring all City employees up to market pay
 - Invest in training and development in our staff
 - Fund pensions at the minimum recommended contribution levels to assure ongoing plan viability
 - Participate in the evaluation and implementation of a pension plan structure that will provide a secure and sufficient benefit to retirees within a sustainable cost structure for the employer and the employee

- 2) Ensure Flagstaff has a long-term water supply for current and future needs**
 - Identify financing, complete designs and construct the Red Gap Waterline
 - Secure ROW for Red Gap Waterline
 - Review current water rate structure
 - Integrate conservation strategies into all water resource management activities
 - Expand the use of reclaimed water

- 3) Provide sustainable and equitable public facilities, services, and infrastructure systems in an efficient and effective manner to serve all population areas and demographics**
 - Rio de Flag - Complete 100% plans, LRR, land acquisition and identify financing strategy
 - Construct Core Services Maintenance Facility at McAllister Ranch
 - Maintain existing infrastructure by investing in ongoing maintenance and operations to get closer to target condition
 - Design, finance and construct Courthouse
 - Enhance library hours
 - Explore stadium and arts district
 -

- 4) Explore and adopt policies to lower the costs associated with housing to the end user**
 - Understand and support increasing housing availability in conjunction with FHA
 - Facilitate exploration of financing tools and models that meet the needs of affordable rental community
 - Review regulatory documents in regard to the complexity of housing affordability
 - Support creative partnerships around workforce housing

- 5) Develop and implement guiding principles that address public safety service levels through appropriate staffing levels**

- 6) Relieve traffic congestion throughout Flagstaff**
 - Identify more information on the scope of problem and solutions that address both supply and demand, including measurement to quantify congestion.
 - Work with partners to achieve goal (regional, county, Flagstaff Metropolitan Planning Organization, State, NAIPTA, railroad, NAU)
 - Implement Road Repair and Street Safety projects

- 7) Address key issues and processes related to the implementation of the Regional Plan**
 - Conduct annual review of implementation of Regional Plan
 - Review and possibly amend Regional Plan goals and policies with regard to location of urban activity centers, preservation of dark skies and student housing and other high density developments. (Review how we implement the RP in the Zoning Code)
 - Explore neighborhood parking districts



CITY OF FLAGSTAFF – COUNCIL GOALS

- 8) **Improve effectiveness of notification, communication, and engagement with residents, neighborhoods and businesses and about City services, programs, policies, projects and developments**
 - Review what, when and how Council and public are notified about development projects
 - Identify opportunities for collaborative outreach among Council members and key community stakeholders
- 9) **Foster relationships and maintain economic development commitment to partners**
- 10) **Decrease the number of working poor**
 - Discuss non legislative tools that lead to living wages in the community
 - Conduct legal research on the City's authority to legislate a local livable wage
- 11) **Ensure that we are as prepared as possible for extreme weather events**
 - Present resiliency and *preparedness* goals to Council



Snow Play visitors are common in Flagstaff with our average of 89.1 inches per year.